

Part II Written Description Justifying the Rate Increase Anthem Health Plans of Kentucky, Inc. Consumer Disclosure for Proposed Health Insurance Rate Increase Individual On and Off Exchange Plans Rate Change Effective January 1, 2016 Scope and Range of the Rate Increase Anthem Health Plans of Kentucky, Inc. has made an application to the Kentucky Department of Insurance for premium rate changes for its fully ACA-compliant Individual health insurance plans. This filing includes an average rate increase of 14.9 percent, excluding the impact of aging, effective January 1, 2016. This increase will impact approximately 34,000 Kentucky members renewing in 2016 with Anthem. Although rates are based on the same single risk pool of experience, the average rate increase for some products is above the 10 percent threshold, as follows: PPO On Exchange and equivalent Off Exchange plans; 13.2 percent rate increase • PPO Off Exchange only plans 17.0 percent rate increase; HMO On Exchange and equivalent Off Exchange plans; 21.9 percent rate increase • Multi-State Plans (MSP) 14.3 percent rate increase A subscriber actual rate increase could be higher or lower depending on the benefit plan selected, geographic location, age characteristics, dependent coverage, and tobacco coverage. Financial Experience Anthem expects the proposed rate increase will cover projected medical trends and yield a medical loss ratio of 84.5 percent on an ACA basis, meaning at least eighty four cents of each premium dollar are expected to go to covering our members; medical expenses and improving health care quality. Please note that this MLR calculation is purely an estimate and not meant to be a true measure for Federal or State MLR rebate purposes. The products in this filing represent only a subset of Anthem's Individual business. The MLR for Anthem's entire book of Individual business will be compared to the minimum Federal benchmark for purposes of determining regulation; related premium refunds. Also note that the projected Federal MLR presented here does not capture all adjustments, such as three-year averaging. Anthem's projected MLR is expected to meet or exceed the minimum MLR standards at the market level after including all adjustments. In the event Anthem's MLR is less than the Federal required minimum, Anthem will refund the difference to policyholders. Changes in Medical Costs The primary driver of the rate increase in this filing is the continued increase in the cost of healthcare. This is driven by increases in the price of services, or unit costs, primarily from hospitals, physicians and pharmaceutical companies, coupled with increases in the consumption of services, or utilization, by members. Increases in the unit costs of services are driven by technology advances, general inflationary pressures, and a variety of other factors. Changes in utilization of services can be driven by the aging of the population, benefit design, and many other factors. Within the projected medical trends, Anthem anticipates that the majority of the increases will be associated with higher unit costs. Administrative Costs and Profits Anthem continues to effectively manage administrative and selling costs from prior years. Administrative costs and anticipated profits are not expected to materially change such that the changes would impact the proposed rate increase. The Affordable Care Act requires that no less than 80 percent of a health insurer premium dollars go to medical expenses and improving health care quality, otherwise a premium rebate to members must be generated to refund the difference. Accordingly, Anthem is filing premium increases targeting compliance with that requirement. Including the impact of taxes and fees, Anthem is projecting total administrative expenses to be 15.7 percent of premium. The expected future underwriting gain on these products is projected to be 3.1 percent of premium